

**CITY OF LONE GROVE, OKLAHOMA**

Financial Statements

June 30, 2013

City of Lone Grove, Oklahoma  
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For the Fiscal Year Ended June 30, 2013

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**FINANCIAL**

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## INDEPENDENT AUDITOR'S REPORT

To the City Council  
City of Lone Grove, Oklahoma

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Lone Grove, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1,B; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lone Grove, Oklahoma, as of June 30, 2013, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1,B.

### **Basis of Accounting**

We draw attention to Note 1,B of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's budgetary comparison information on page 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lone Grove, Oklahoma's basic financial statements. The combining nonmajor fund statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 8, 2014, on our consideration of the City of Lone Grove, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Lone Grove, Oklahoma's internal control over financial reporting and compliance.



Oklahoma City, Oklahoma  
August 8, 2014

**BASIC FINANCIAL STATEMENTS**

City of Lone Grove, Oklahoma  
Government-Wide Statement of Net Position – Modified Cash Basis  
June 30, 2013

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and Cash Equivalent	\$ 1,653,777	\$ 945,283	\$ 2,599,060
Restricted Cash and Cash Equivalent	-	105,806	105,806
Total Current Assets	<u>1,653,777</u>	<u>1,051,089</u>	<u>2,704,866</u>
<b>Noncurrent Assets</b>			
<b>Capital Assets</b>			
Land, Land Improvements and Construction in Progress	116,500	3,052,030	3,168,530
Other Capital Assets, Net of Depreciation	<u>698,041</u>	<u>711,210</u>	<u>1,409,251</u>
Total Noncurrent Assets	<u>814,541</u>	<u>3,763,240</u>	<u>4,577,781</u>
Total Assets	<u>2,468,318</u>	<u>4,814,329</u>	<u>7,282,647</u>
<b>LIABILITIES AND NET POSITION</b>			
<b>Current Liabilities</b>			
Bonds Pending Court	\$ 15,809	\$ -	\$ 15,809
Refundable Meter Deposits	-	80,704	80,704
Capital Lease Obligations - Current	4,374	-	4,374
Notes Payable - Current	<u>-</u>	<u>25,270</u>	<u>25,270</u>
Total Current Liabilities	<u>20,183</u>	<u>105,974</u>	<u>126,157</u>
<b>Noncurrent Liabilities</b>			
Notes Payable	<u>-</u>	<u>809,552</u>	<u>809,552</u>
Total Noncurrent Liabilities	<u>-</u>	<u>809,552</u>	<u>809,552</u>
Total Liabilities	<u>20,183</u>	<u>915,526</u>	<u>935,709</u>
<b>Net Position</b>			
Invested in Capital Assets	810,167	2,928,418	3,738,585
<b>Restricted</b>			
Public Safety	380,531	-	380,531
Streets	39,273	-	39,273
Capital Improvements	(13,465)	-	(13,465)
Sewer	766,007	-	766,007
Cemetery	6,252	-	6,252
Unrestricted	<u>459,370</u>	<u>970,385</u>	<u>1,429,755</u>
Total Net Position	<u>\$ 2,448,135</u>	<u>\$ 3,898,803</u>	<u>\$ 6,346,938</u>

The notes to the financial statements are an integral part of this statement



City of Lone Grove, Oklahoma  
Government-Wide Statement of Revenues, Expenses and Changes in Net Position – Modified Cash Basis  
For the Year Ended June 30, 2013

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets Primary Government		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<i>Functions/Programs</i>	<u>Expenses</u>						
Primary Government							
Governmental Activities							
General Government	\$ 382,606	\$ 213,032	\$ -	\$ -	\$ (169,574)	\$ -	\$ (169,574)
Highways and Streets	275,993	-	-	50,000	(225,993)	-	(225,993)
Public Safety	822,509	167,191	33,128	-	(622,190)	-	(622,190)
Culture and Recreation	57,880	-	-	-	(57,880)	-	(57,880)
Cemetery / Parks	4,838	7,600	-	-	2,762	-	2,762
Interest	357	-	-	-	(357)	-	(357)
Total Governmental Activities	<u>1,544,183</u>	<u>387,823</u>	<u>33,128</u>	<u>50,000</u>	<u>(1,073,232)</u>	<u>-</u>	<u>(1,073,232)</u>
Business-Type Activities							
Water	262,385	541,385	-	-	-	279,000	279,000
Sewer	44,404	141,584	-	8,000	-	105,180	105,180
Sanitation	318,158	380,270	-	-	-	62,112	62,112
General Government	203,097	-	-	-	-	(203,097)	(203,097)
Interest Expense	2,350	-	-	-	-	(2,350)	(2,350)
Total Business Type Activities	<u>830,394</u>	<u>1,063,239</u>	<u>-</u>	<u>8,000</u>	<u>-</u>	<u>240,845</u>	<u>240,845</u>
Total Primary Government	<u>\$ 2,374,577</u>	<u>\$ 1,451,062</u>	<u>\$ 33,128</u>	<u>\$ 58,000</u>	<u>\$ (1,073,232)</u>	<u>240,845</u>	<u>(832,387)</u>
General Revenues							
Taxes					1,124,382	-	1,124,382
Interest					4,898	1,444	6,342
Rent					-	7,260	7,260
Miscellaneous					-	112,930	112,930
Transfers					(379,332)	379,332	-
Total General Revenues and Transfers					<u>749,948</u>	<u>500,966</u>	<u>1,250,914</u>
Change in Net Position					(323,284)	741,811	418,527
Net Position - Beginning					<u>2,771,419</u>	<u>3,156,992</u>	<u>5,928,411</u>
Net Position - Ending					<u>\$ 2,448,135</u>	<u>\$ 3,898,803</u>	<u>\$ 6,346,938</u>

The notes to the financial statements are an integral part of this statement

City of Lone Grove, Oklahoma  
Statement of Assets, Liabilities and Fund Balances – Modified Cash Basis  
Governmental Funds  
June 30, 2013

	General Fund	Special Sales Tax Fund	Sales Tax Sewer Fund	Other Governmental Funds	Total
Assets					
Cash	\$ 632,890	\$ 367,066	\$ 608,296	\$ 45,525	\$ 1,653,777
Total Assets	<u>\$ 632,890</u>	<u>\$ 367,066</u>	<u>\$ 608,296</u>	<u>\$ 45,525</u>	<u>\$ 1,653,777</u>
Liabilities					
Bonds Pending Court	\$ 15,809	\$ -	\$ -	\$ -	\$ 15,809
Total Liabilities	<u>15,809</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,809</u>
Fund Balances					
Restricted	-	367,066	766,007	45,525	1,178,598
Committed	-	-	-	-	-
Assigned	-	-	15,238	-	15,238
Unassigned	617,081	-	(172,949)	-	444,132
Total Fund Balances	<u>617,081</u>	<u>367,066</u>	<u>608,296</u>	<u>45,525</u>	<u>1,637,968</u>
Total Liabilities and Fund Balances	<u>\$ 632,890</u>	<u>\$ 367,066</u>	<u>\$ 608,296</u>	<u>\$ 45,525</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and,  
therefore, are not reported in the fund.

814,541

Long term liabilities are not due and payable in the current period and, therefore,  
are not reported in the funds

(4,374)

Net assets of governmental activities.

\$ 2,448,135

The notes to the financial statements are an integral part of this statement

City of Lone Grove, Oklahoma  
Statement of Revenues, Expenditures and  
Changes in Fund Balances – Modified Cash Basis – Governmental Funds  
For the Year Ended June 30, 2013

	General Fund	Special Sales Tax Fund	Sales Tax Sewer Fund	Other Governmental Funds	Total
<b>REVENUE</b>					
Taxes	\$ 577,770	\$ 250,506	\$ 250,506	\$ 45,601	\$ 1,124,383
Interest	1,643	-	3,255	24,644	29,542
Cemetery	5,875	-	-	1,725	7,600
License and Permits	17,656	-	-	-	17,656
Fines	147,191	-	-	-	147,191
Franchise Fees	169,767	-	-	-	169,767
Grants	4,484	54,000	-	-	58,484
Miscellaneous	41,181	4,427	-	-	45,608
Total Revenue	<u>965,567</u>	<u>308,933</u>	<u>253,761</u>	<u>71,970</u>	<u>1,600,231</u>
<b>EXPENDITURES</b>					
Current					
General Government	199,891	153,438	-	24,644	377,973
Highways and Streets	168,331	145,713	-	20,877	334,921
Public Safety	690,616	71,688	-	-	762,304
Cemetery / Parks	9,021	-	-	2,600	11,621
Culture and Recreation	57,880	-	-	-	57,880
Capital Outlay					
General Government	-	-	-	15,181	15,181
Public Safety	22,500	13,500	-	-	36,000
Debt Service					
Principal	-	12,850	-	-	12,850
Interest	-	357	-	-	357
Total Expenditures	<u>1,148,239</u>	<u>397,546</u>	<u>-</u>	<u>63,302</u>	<u>1,609,087</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(182,672)	(88,613)	253,761	8,668	(8,856)
Other Financing Sources					
Transfers In	-	60,000	120,000	-	180,000
Transfers Out	<u>(12,622)</u>	<u>-</u>	<u>(546,710)</u>	<u>-</u>	<u>(559,332)</u>
Total Other Financing Sources	<u>(12,622)</u>	<u>60,000</u>	<u>(426,710)</u>	<u>-</u>	<u>(379,332)</u>
Net Change in Fund Balances	(195,294)	(28,613)	(172,949)	8,668	(388,188)
Fund Balances - Beginning	<u>812,375</u>	<u>395,679</u>	<u>781,245</u>	<u>36,857</u>	<u>2,026,156</u>
Fund Balances - Ending	<u>\$ 617,081</u>	<u>\$ 367,066</u>	<u>\$ 608,296</u>	<u>\$ 45,525</u>	<u>\$ 1,637,968</u>

The notes to the financial statements are an integral part of this statement

City of Lone Grove, Oklahoma  
Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances – Modified Cash Basis – Governmental Funds  
to the Statement of Revenue, Expenses and Changes in Net Position – Modified Cash Basis  
For the Year Ended June 30, 2013

Amounts reported for governmental activities  
in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ (388,188)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period, and the amount of capital assets contributed to enterprise funds.	52,054
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance cost, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	12,850
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Change in net assets of governmental activities.	<u>\$ (323,284)</u>
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The notes to the financial statements are an integral part of this statement

City of Lone Grove, Oklahoma  
Statement of Net Position – Modified Cash Basis – Proprietary Fund  
June 30, 2013

	Lone Grove Water Trust
	<hr/>
ASSETS	
Current Assets	
Cash and Cash Equivalent	\$ 945,283
Restricted Cash and Cash Equivalent	105,806
Total Current Assets	<hr/> 1,051,089 <hr/>
Noncurrent Assets	
Capital Assets	
Land	102,499
Construction in Progress	2,949,531
Other Capital Assets, Net of Depreciation	711,210
Total Noncurrent Assets	<hr/> 3,763,240 <hr/>
Total Assets	<hr/> \$ 4,814,329 <hr/>
LIABILITIES AND EQUITY	
Current Liabilities	
Refundable Meter Deposits	\$ 80,704
Notes Payable - Current	25,270
Total Current Liabilities	<hr/> 105,974 <hr/>
Noncurrent Liabilities	
Notes Payable	809,552
Total Noncurrent Liabilities	<hr/> 809,552 <hr/>
Total Liabilities	<hr/> 915,526 <hr/>
Net Position	
Invested in Capital Assets, Net of Related Debt	2,928,418
Unrestricted	970,385
Total Net Position	<hr/> \$ 3,898,803 <hr/>

The notes to the financial statements are an integral part of this statement

City of Lone Grove, Oklahoma  
Statement of Revenue, Expenses and Changes in Net Position – Modified Cash Basis –  
Proprietary Fund  
For the Year Ended June 30, 2013

	Lone Grove Water Trust
Operating Revenues:	
Water	\$ 496,931
Sewer	141,584
Sanitation	380,270
Water and Sewer Taps	16,700
Penalties	27,754
Grants	8,000
Rent	7,260
Miscellaneous	112,930
Total Operating Revenue	<u>1,191,429</u>
Operating Expenses:	
Water	262,385
Sewer	44,404
Trustees	203,097
Sanitation	318,158
Total Operating Expenses	<u>828,044</u>
Operating Income (Loss)	<u>363,385</u>
Nonoperating Revenues (Expenses):	
Transfers	379,332
Interest Income	1,444
Interest Expense	(2,350)
Total Nonoperating Revenues (Expenses)	<u>378,426</u>
Net Change in Net Position	741,811
Total Net Position - Beginning	<u>3,156,992</u>
Total Net Position - Ending	<u><u>\$ 3,898,803</u></u>

The notes to the financial statements are an integral part of this statement

City of Lone Grove, Oklahoma  
Statement of Cash Flows – Modified Cash Basis – Proprietary Fund  
For the Year Ended June 30, 2013

	Lone Grove Water Trust
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from Customers	\$ 1,197,974
Payments to Employees for Services	(261,674)
Payments to Vendors for Goods and Services	(503,477)
Net Cash Provided by Operating Activities	<u>432,823</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Interfund Transfers from Other Funds	601,877
Interfund Transfers to Other Funds	(222,545)
Net Cash Used by Noncapital Financing Activities	<u>379,332</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchase of Capital Assets	(1,421,654)
Principal Received from Capital Debt	1,308,683
Principal Paid on Capital Debt	(518,700)
Interest Paid on Capital Debt	(2,350)
Net Cash Used by Capital Financing Activities	<u>(634,021)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest Income	<u>1,444</u>
Net Cash Provided by Investing Activities	<u>1,444</u>
Net Increase in Cash and Cash Equivalents	179,578
Cash and Cash Equivalents, Beginning of Year	<u>871,511</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 1,051,089</u></u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>	
Operating Income	\$ 363,385
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation	62,892
Increase in Refundable Meter Deposits	6,546
Total Adjustments	<u>69,438</u>
Net Cash Provided by Operating Activities	<u><u>\$ 432,823</u></u>

The notes to the financial statements are an integral part of this statement

**NOTES TO FINANCIAL STATEMENTS**



City of Lone Grove, Oklahoma  
Notes to Financial Statements  
June 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**A. The Reporting Entity**

The City of Lone Grove, Oklahoma, (the City) is a charter city operating under a Council-Manager form of government authorized by the charter and Title 11 of the Oklahoma statutes. The governing body of the City is the City Council comprised of five elected members. The appointed City Manager is the administrative head of the City.

The accompanying financial statements present the City of Lone Grove and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

Blended Component Unit

The Lone Grove Water Trust Authority (Authority) serves all the citizens of the government and is governed by a board comprised of the government's elected council and two appointed members. The rates for user charges and bond issuance authorizations are approved by the government's council and the legal liability for the general obligation portion of the Authority's debt remains with the government. The Authority is presented as an Enterprise fund.

**B. Government-wide and fund financial statements**

*Government-Wide Financial Statements*

The government-wide financial statements (i.e., the statement of assets, liabilities and net position and the statement of revenues, expenses and changes in net position) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of revenues, expenses and changes in net position demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

City of Lone Grove, Oklahoma  
Notes to Financial Statements  
June 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

**B. Government-wide and fund financial statements (continued)**

The government-wide financial statements of the City are prepared on a modified cash basis of accounting. Under this basis, cash receipts are recognized as revenue at the date of receipt and cash payments are recognized as expenditures at date of payment with the following modifications:

- Capital assets are recorded as assets when purchased and related depreciation is recorded.
- Long-term debt is recorded when incurred.
- Employee withholding taxes that have not been deposited with the IRS but relate to compensation paid are recorded as liabilities.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

*Fund Financial Statements*

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in each fund-type financial statements.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. The modified cash basis of accounting is used. However, the governmental funds focus on a current financial resources measurement thus capital assets and debt is not recorded.

The City reports the following major government funds:

General Fund - is the Government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Special Sales Tax Fund - is a capital project fund which accounts for a one percent dedicated sales tax to be used for capital expenditures.

Sewer Sales Tax Fund - is a capital project fund which accounts for one percent dedicated sales tax to be used for sewer improvements.

Nonmajor Governmental Funds are the Cemetery Care, and Street and Alley funds.

City of Lone Grove, Oklahoma  
Notes to Financial Statements  
June 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

**B. Government-wide and fund financial statements (continued)**

The City reports the Authority as a major proprietary fund. The Authority accounts for the activities related to the provision of water and sewer services to businesses and residents. It operates the water and sewer treatment plants, water distribution system, sewer collections systems and pump stations.

Proprietary funds are accounted for using the modified cash basis of accounting modified as follows:

- Capital assets are recorded as assets when purchased and related depreciation is recorded.
- Long-term debt is recorded when incurred.
- Employee withholding taxes that have not been deposited with the IRS but relate to compensation paid are recorded as liabilities.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

**C. Assets, liabilities, and net assets or equity**

**1. *Deposits and investments***

For purposes of the statement of cash flows, the City considers short-term investments with original maturities of three months or less from the date of acquisition to be cash equivalents

Oklahoma Statutes authorize the City to invest in direct obligations of the United States Government, its agencies or instrumentalities; collateralized or insured certificates of deposits of financial institutions located in the state of Oklahoma or fully-insured certificates of deposits of financial institutions located outside the state; savings accounts, and county, municipal or school district general obligation debt.

Public trusts created under Oklahoma Statutes Title 60 are not subject to the above investment limitations and are primarily governed by any restrictions in their trust or note indenture.

City of Lone Grove, Oklahoma  
Notes to Financial Statements  
June 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

**C. Assets, liabilities, and net assets or equity (continued)**

**2. *Interfund transactions***

Interfund receivables and payables arise from interfund transactions and are recorded in the period transacted. The balances result from the time lag between the dates that interfund reimbursable expenditures occur and the payments between funds are made. Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to move unrestricted revenue collected to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**3. *Restricted assets***

Customer utility deposits are reported as restricted cash.

**4. *Capital assets***

Capital assets which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$500 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Building Improvements	20
Infrastructure	50
System infrastructure	30
Vehicles, Office and computer equipment	5
Machinery and equipment	10

City of Lone Grove, Oklahoma  
Notes to Financial Statements  
June 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

**C. Assets, liabilities, and net assets or equity (continued)**

**5. *Governmental fund balances***

Beginning July 1, 2010, the City implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent.

Fund Balance Classification: The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the entity is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. City of Lone Grove did not have any nonspendable resources as of June 30, 2013.

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. City of Lone Grove has restricted resources by state law and from grants as of June 30, 2013.

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal ordinance or resolution of the City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

Assigned: This classification includes amounts that are constrained by City of Lone Grove's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council or through the council delegating this responsibility to the manager through the budgetary process.

Unassigned: This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

City of Lone Grove, Oklahoma  
Notes to Financial Statements  
June 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

**C. Assets, liabilities, and net position or equity (continued)**

As of June 30, 2013, fund balances are composed of the following:

	General Fund	Special Sales Tax Fund	Sales Tax Sewer Fund	Other Governmental Funds	Total Governmental Funds
<i>Restricted</i>					
Public Safety	\$ -	\$ 380,531	\$ -	\$ -	\$ 380,531
Streets	-	-	-	39,273	39,273
Capital Improvements	-	(13,465)	-	-	(13,465)
Sewer	-	-	766,007	-	766,007
Cemetery	-	-	-	6,252	6,252
<i>Assigned</i>					
Sewer	-	-	15,238	-	15,238
<i>Unassigned</i>	617,081	-	(172,949)	-	444,132
	<u>\$ 617,081</u>	<u>\$ 367,066</u>	<u>\$ 608,296</u>	<u>\$ 45,525</u>	<u>\$ 1,637,968</u>

The City would typically use restricted fund balances first, followed by committed resources and the assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

**6. Government-wide Net Position**

Government-wide net position is divided into three components:

- Invested in capital assets, net of related debt – consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- Restricted net position – consists of net position that is restricted by creditors, by the state enabling legislation, by grantors (both federal and state), and by other contributors.
- Unrestricted – all other net position is reported in this category.

City of Lone Grove, Oklahoma  
Notes to Financial Statements  
June 30, 2013

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

**A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position**

The governmental fund balance sheet includes a reconciliation of the \$810,167 difference between *fund balance - total governmental funds* and *net position - governmental activities* as reported in the government-wide statement of net position.

One element of that reconciliation is capital assets used in governmental activities that are not financial resources.

Capital assets, not being depreciated	\$ 116,500
Capital assets, being depreciated	3,721,977
Less Accumulated Depreciation	(3,023,936)
	<u>\$ 814,541</u>

The next element of the reconciliation is long term liabilities that are not due and payable in the current period, and are not reported in the funds.

Capital Lease Payable	<u>\$ (4,374)</u>
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**B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances, and the government-wide statement of revenues, expenses and changes in net position**

The government fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation of the \$64,904 difference between *net changes in fund balances - total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities.

One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures.” However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.”

Capital Outlay	\$ 171,066
Depreciation Expense	(119,012)
Capital Assets Contributed to Enterprise Funds	-
	<u>\$ 52,054</u>

City of Lone Grove, Oklahoma  
Notes to Financial Statements  
June 30, 2013

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS – (continued)

**B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances, and the government-wide statement of revenues, expenses and changes in net position – (continued)**

Another element of the reconciliation explains issuance and repayment of debt does affect net assets.

Capital lease principal payments	\$ 12,850
	<u>\$ 12,850</u>

III. BUDGETARY INFORMATION

The city manager submits an annual budget to the City Council in accordance with the City Charter and the Oklahoma Municipal Budget Act. In June the City Council adopts annual fiscal year appropriated budgets for all city funds.

The appropriated budget is prepared by fund, department and categories (personnel services, materials and supplies, other services and charges, capital outlay, debt services and transfers). Transfers of appropriations between departments within a fund require the approval of the City Manager. Transfers of appropriations between funds and supplements to the budget require City Council approval. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.

IV. DEPOSITS AND INVESTMENTS

*Deposit Custodial Credit Risk:* Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City follows state statutes regarding custodial credit risk which requires collateral for all deposits in excess of Federal Deposit Insurance. At June 30, 2013, the bank balance was \$3,038,525. This amount was insured and collateralized.

*Interest Rate Risk:* The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk:* Credit risk is the risk that an issuer of a debt-type investment will not fulfill its obligation to the holder of the investment. The City does not have a formal investment policy limiting the types of investments measured by assignment of a credit rating by a nationally recognized rating organization.



City of Lone Grove, Oklahoma  
Notes to Financial Statements  
June 30, 2013

IV. DEPOSITS AND INVESTMENTS – (continued)

*Concentration of credit risk:* Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The City does not have a formal policy limiting the amount that may be invested with one issuer.

V. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

There were no interfund balances as of June 30, 2013.

Interfund transfers:

		Transfer From		
		General Fund	Special Tax Sewer Fund	Public Works Authority
T r a n s f e r	General Fund	\$ -	\$ -	\$ -
	Sales Tax Sewer Fund	-	-	120,000
	Special Sales Tax Fund	-	-	60,000
	Lone Grove Water Authority	12,622	546,710	-
	Total	\$ 12,622	\$ 546,710	\$ 180,000

VI. LONG-TERM LIABILITIES

A summary of long-term liability activity for the year ended June 30, 2013, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Primary Government					
Governmental Activities					
Capital Lease Obligations	\$ 17,224	\$ -	\$ 12,850	\$ 4,374	\$ 4,374
Business-Type Activities					
Notes Payable	44,839	1,308,683	518,700	834,822	25,270
	<u>\$ 62,063</u>	<u>\$ 1,308,683</u>	<u>\$ 531,550</u>	<u>\$ 839,196</u>	<u>\$ 29,644</u>

Capital Leases

The City has entered into a lease agreement for financing the acquisition of equipment. The lease agreement qualifies as a capital lease. Equipment and the related accumulated depreciation under capital lease is as follows:

Equipment	\$ 25,620
less accumulated depreciation	<u>(10,248)</u>
	<u>\$ 15,372</u>

City of Lone Grove, Oklahoma  
Notes to Financial Statements  
June 30, 2013

VI. LONG-TERM LIABILITIES – (continued)

As of June 30, 2013, capital lease annual amortization is as follows:

	Year Ending June 30 2014	\$	4,403
Present value of future minimum lease payments		\$	4,403
less: Interest			(29)
Net Minimum lease payments		\$	4,374
Current portion			(4,374)
Long-term portion		\$	-

Business-type activities long-term liabilities at June 30, 2013, consisted of the following:

Business-Type Activities

American National Bank (financed costs of land and equipment purchase)	May, 2016	4.75%	\$ 12,624	\$ 99,999	\$ 34,131
American National Bank (financed vehicle)	November, 2015	3.00%	\$ 14,448	\$ 27,980	\$ 19,988
Oklahoma Water Resources (financed costs of wastewater system construction)	March, 2044	2.37%	\$ 36,500	\$ 11,755,000	\$ 780,703

As of June 30, 2013, annual debt service requirements of the business-type activities to maturity are as follows:

Year Ending June 30	Principal	Interest
2014	\$ 25,270	\$ 1,807
2015	35,830	19,333
2016	29,678	18,239
2017	18,988	17,522
2018	19,440	17,069
2019-2023	104,378	78,170
2024-2028	117,427	65,121
2029-2033	132,109	50,438
2033-2038	148,626	33,923
2039-2043	167,207	15,341
2044	35,869	639
	<u>\$ 834,822</u>	<u>\$ 317,602</u>

City of Lone Grove, Oklahoma  
Notes to Financial Statements  
June 30, 2013

**VII. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b><i>Government Activities:</i></b>				
<b><i>Capital assets, not being depreciated</i></b>				
Land	\$ 116,500	\$ -	\$ -	\$ 116,500
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	<u>116,500</u>	<u>-</u>	<u>-</u>	<u>116,500</u>
<b><i>Capital assets, being depreciated</i></b>				
Buildings	365,017	30,537	-	395,554
Computers and Electronics	122,935	-	-	122,935
Vehicles	1,048,987	13,500	-	1,062,487
Machinery and Equipment	848,476	28,743	-	877,219
Infrastructure	1,165,496	98,286	-	1,263,782
Total capital assets, being depreciated	<u>3,550,911</u>	<u>171,066</u>	<u>-</u>	<u>3,721,977</u>
Less Accumulated Depreciation	<u>2,904,924</u>	<u>119,012</u>		<u>3,023,936</u>
Total capital assets, being depreciated, net	<u>645,987</u>	<u>52,054</u>	<u>-</u>	<u>698,041</u>
Governmental activities capital assets, net	<u>762,487</u>	<u>52,054</u>	<u>-</u>	<u>814,541</u>
<b><i>Business-type Activities:</i></b>				
<b><i>Capital assets, not being depreciated</i></b>				
Land, Lagoons, Construction	\$ 1,335,928	\$ 1,313,986	\$ (402,116)	\$ 3,052,030
Total capital assets, not being depreciated	<u>1,335,928</u>	<u>1,313,986</u>	<u>(402,116)</u>	<u>3,052,030</u>
<b><i>Capital assets, being depreciated</i></b>				
Buildings	212,000	-	-	212,000
Computers and Electronics	60,613	-	-	60,613
Vehicles	130,638	62,061	-	192,699
Machinery and Equipment	200,613	-	-	200,613
Infrastructure	13,929,214	45,607	402,116	13,572,705
Total capital assets, being depreciated	<u>14,533,078</u>	<u>107,668</u>	<u>402,116</u>	<u>14,238,630</u>
Less Accumulated Depreciation	<u>13,464,528</u>	<u>62,892</u>	<u>-</u>	<u>13,527,420</u>
Total capital assets, being depreciated, net	<u>1,068,550</u>	<u>44,776</u>	<u>402,116</u>	<u>711,210</u>
Business activities capital assets, net	<u>2,404,478</u>	<u>1,358,762</u>	<u>-</u>	<u>3,763,240</u>
<b>Total Primary Government</b>	<u><u>\$ 3,166,965</u></u>	<u><u>\$ 1,410,816</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,577,781</u></u>

City of Lone Grove, Oklahoma  
Notes to Financial Statements  
June 30, 2013

VII. CAPITAL ASSETS (continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Government activities:

General government	\$ 29,277
Public safety	35,561
Highways and streets	53,144
Cemetery/Parks	1,030
Total depreciation expense - governmental activities	<u>\$ 119,012</u>

Business-type activities

Water	\$ 32,309
Sewer	13,121
General government	<u>17,462</u>
Total depreciation expense - business-type activities	<u>\$ 62,892</u>

VIII. PENSION PLANS

Municipal Retirement Plan

The City of Lone Grove and its employees participate in the Oklahoma Municipal Retirement Fund (OMRF) as a defined contribution plan. All regular full-time employees, except those covered under another retirement system are eligible. Employees are vested at 7 years. The OMRF issues a publicly available financial report that includes financial statements and the required supplementary information that can be obtained by requesting a copy at City Hall.

Funding Policy: The contribution requirements are established and may be amended by the OMRF board. Employees are required to contribute 2 percent of their annual covered salary after tax. The City's required contribution rate is five percent.

Annual Pension Cost: For the year ended June 30, 2013, the City and the Authority's annual pension cost of \$32,553 and \$13,021, respectively, was equal to the required contributions.

Firefighters' Retirement Plan

Fire department employees in Oklahoma participate in a state administered pension program established under legislative authority, Oklahoma Firefighters' Pension Fund, which is a cost-sharing multiple-employer public employee retirement system (PERS). Under this program, contributions are made by each of three parties - the City, the State of Oklahoma, and the participating employees. The City has no responsibility or authority for the operation and administration of the pension program nor has it any related liability, except for the current contribution requirements.

City of Lone Grove, Oklahoma  
Notes to Financial Statements  
June 30, 2013

VIII. PENSION PLANS (continued)

A participant with twenty years of service may retire with a normal retirement allowance. The normal retirement allowance paid monthly for life and then to beneficiaries equal to 2.5% of the average compensation of the highest 30 months of the last 60 months of contributory service multiplied by the number of years of credited service up to the maximum of 30 years. The contribution rates for the City and its employees are established by Statute. The City is required to contribute 13% per the year June 30, 2013. Participating members are required to contribute 8%.

The Oklahoma State Legislature has the authority to grant percentage increases or special one-time payments to persons receiving benefits from the System and is required by statute to make appropriations as necessary to insure benefit payments are made.

Trend Information:

Year Ending June 30	Covered Payroll	Pension Cost	City Share	Employee Share	On-Behalf Payments
2013	\$ 68,808	\$ 14,450	\$ 8,945	\$ 5,505	\$ 18,303
2012	67,797	14,237	8,814	5,423	18,034
2011	63,369	13,840	8,568	5,272	15,589

Additional information can be obtained by writing Oklahoma Firefighters Pension and Retirement Board, 4545 N. Lincoln Blvd., Suite 165, Oklahoma City, OK 73105.

IX. CONTINGENCIES

Federal Programs

The City participates in a number of federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The final acceptance of the audits of these programs including the year ended June 30, 2013, has not been given. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. However, the City expects such amounts, if any, to be immaterial.

DEQ Consent Order

On June 30, 2010, the Department of Environmental Quality issued a consent order assessing the City a total penalty of \$30,000. The City made a cash payment of \$5,000 within sixty days. Payment of the remaining \$25,000 was deferred pending full compliance with the terms and conditions of the consent order. If the City fails to perform any task set forth in the order by the task's due date, the full deferred penalty will become due and payable.

City of Lone Grove, Oklahoma  
Notes to Financial Statements  
June 30, 2013

X. RISK MANAGEMENT

The City is exposed to various risks of loss (torts, theft of, damage to, or destruction of assets, business interruptions, errors and omissions, job-related illnesses or injuries to employees, and acts of God) and has established a risk management strategy that attempts to minimize losses and the carrying cost of insurance. There have been no significant reductions in insurance coverage from the prior year and settlements have not exceeded coverage in the past three years.

XI. SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 10, 2014, the date which the financial statements were available and issued.

## **SUPPLEMENTAL INFORMATION**

City of Lone Grove, Oklahoma  
Statement of Revenues, Expenditures and Changes in Fund Balance – Modified Cash Basis  
Budget to Actual  
General Fund  
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts	With Final Budget
<b>REVENUE</b>				
Taxes	\$ 572,000	\$ 572,000	\$ 577,770	\$ 5,770
Interest	1,500	1,500	1,643	143
Cemetery	2,300	2,300	5,875	3,575
License and Permits	28,600	28,600	17,656	(10,944)
Fines	105,000	105,000	147,191	42,191
Franchise Fees	163,500	163,500	169,767	6,267
Grants	-	-	4,484	4,484
Miscellaneous	25,300	25,300	41,181	15,881
Total Revenue	<u>898,200</u>	<u>898,200</u>	<u>965,567</u>	<u>67,367</u>
<b>EXPENDITURES</b>				
Current				
General Government	215,081	215,081	199,891	15,190
Highways and Streets	175,201	175,201	168,331	6,870
Public Safety	709,500	709,500	713,116	(3,616)
Cemetery / Parks	10,193	10,193	9,021	1,172
Culture and Recreation	62,510	62,510	57,880	4,630
Capital Outlay	-	-	-	-
Total Expenditures	<u>1,172,485</u>	<u>1,172,485</u>	<u>1,148,239</u>	<u>24,246</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(274,285)</u>	<u>(274,285)</u>	<u>(182,672)</u>	<u>91,613</u>
Other Financing Sources (Uses)				
Transfers In	-	-	-	-
Transfers Out	<u>(12,700)</u>	<u>(12,700)</u>	<u>(12,622)</u>	<u>78</u>
Total Other Financing Sources (Uses)	<u>(12,700)</u>	<u>(12,700)</u>	<u>(12,622)</u>	<u>78</u>
Net Change in Fund Balances	(286,985)	(286,985)	(195,294)	91,691
Fund Balance - Beginning	-	-	812,375	812,375
Fund Balance - Ending	<u>\$ (286,985)</u>	<u>\$ (286,985)</u>	<u>\$ 617,081</u>	<u>\$ 904,066</u>



**COMBINING NONMAJOR FUND  
STATEMENTS AND SCHEDULES**

City of Lone Grove, Oklahoma  
Combining Statement of Assets, Liabilities and Fund Balances – Modified Cash Basis  
Nonmajor Governmental Funds  
June 30, 2013

	<u>Street and Alley</u>	<u>Grants</u>	<u>Cemetery Care</u>	<u>Total</u>
Assets				
Cash	\$ 39,273	\$ -	\$ 6,252	\$ 45,525
Total Assets	<u>\$ 39,273</u>	<u>\$ -</u>	<u>\$ 6,252</u>	<u>\$ 45,525</u>
Fund Balances				
Restricted	\$ 39,273	\$ -	\$ 6,252	\$ 45,525
Reserved	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balances	<u>39,273</u>	<u>-</u>	<u>6,252</u>	<u>45,525</u>
Total Liabilities and Fund Balances	<u>\$ 39,273</u>	<u>\$ -</u>	<u>\$ 6,252</u>	<u>\$ 45,525</u>

City of Lone Grove, Oklahoma  
Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Modified Cash Basis  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2013

	<u>Street and Alley</u>	<u>Grants</u>	<u>Cemetery Care</u>	<u>Total</u>
REVENUE				
Taxes	\$ 45,601	\$ -	\$ -	\$ 45,601
Grant Revenue	-	24,644	-	24,644
Cemetery	<u>-</u>	<u>-</u>	<u>1,725</u>	<u>1,725</u>
Total Revenue	<u>45,601</u>	<u>24,644</u>	<u>1,725</u>	<u>71,970</u>
EXPENDITURES				
Current				
Public Health and Welfare	-	24,644	-	24,644
Highways and Streets	20,877	-	-	20,877
Cemetery / Parks	<u>-</u>	<u>-</u>	<u>2,600</u>	<u>2,600</u>
Capital Outlay				
Streets	<u>15,181</u>	<u>-</u>	<u>-</u>	<u>15,181</u>
Total Expenditures	<u>36,058</u>	<u>24,644</u>	<u>2,600</u>	<u>63,302</u>
Net Change in Fund Balances	9,543	-	(875)	8,668
Fund Balances - Beginning	<u>29,730</u>	<u>-</u>	<u>7,127</u>	<u>36,857</u>
Fund Balances - Ending	<u><u>\$ 39,273</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 6,252</u></u>	<u><u>\$ 45,525</u></u>

**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL AND COMPLIANCE**

## Casey J. Russell CPA, Inc.

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### INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the City Council  
City of Lone Grove, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Lone Grove, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise City of Lone Grove, Oklahoma's basic financial statements, and have issued our report thereon dated August 8, 2014.

#### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered City of Lone Grove, Oklahoma's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Lone Grove, Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Lone Grove, Oklahoma's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

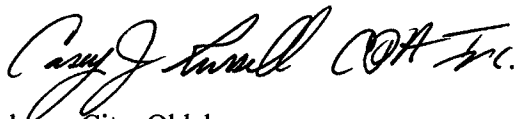
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of Lone Grove, Oklahoma's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Handwritten signature of Casey J. Small, CPA, Inc. in cursive script.

Oklahoma City, Oklahoma  
August 8, 2014

**SINGLE AUDIT SECTION**

City of Lone Grove, Oklahoma  
Schedule of Expenditures of Federal Awards  
Modified Cash Basis  
For the Year Ended June 30, 2013

<b>Federal Grantor / Pass-through Grantor/Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-through Entity Identifying Number</b>	<b>Federal Expenditures</b>
<i>Pass-Through Programs From:</i>			
Oklahoma Water Resources Board			
Capital Grants for State Revolving Fund	66.458	ORF-04-011-CW	\$ 1,267,276
Total Expenditures of Federal Awards			\$ 1,267,276



## Casey J. Russell CPA, Inc.

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### INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the City Council  
City of Lone Grove, Oklahoma

#### **Report on Compliance for Each Major Federal Program**

We have audited City Lone Grove, Oklahoma's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Lone Grove, Oklahoma's major federal programs for the year ended June 30, 2013. City of Lone Grove, Oklahoma's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of City of Lone Grove, Oklahoma's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Lone Grove, Oklahoma's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City of Lone Grove, Oklahoma's compliance.

#### ***Opinion on Each Major Federal Program***

In our opinion, City of Lone Grove, Oklahoma, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

#### **Report on Internal Control over Compliance**

Management of City of Lone Grove, Oklahoma, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Lone Grove, Oklahoma's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Lone Grove, Oklahoma's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Oklahoma City, Oklahoma  
August 8, 2013

City of Lone Grove, Oklahoma  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2013

None.

City of Lone Grove, Oklahoma  
Summary Schedule of Prior Year Findings and Questioned Costs  
For the Year Ended June 30, 2013